



Seattle City Employees' Retirement System Buy Backs

Several new opportunities to purchase or “buy back” service credit towards retirement have recently been approved. One or more of these opportunities may be available to you as a City Retirement System member, depending on your employment history and your past involvement with the Retirement System.

After careful review, and after considering various requests made by employees, the Retirement Board recommended that several new buy back options be offered. The Board's recommendations became a part of labor negotiations and, with few modifications, were recently approved by labor and management. Legislation was then prepared and brought to City Council and the Mayor. It was recently adopted by Ordinance 120684.

The new buy back options are explained below. You'll find information about all of them but we suggest that you focus on the details of the buy back(s) that specifically apply to you. You'll eventually need to decide whether you want to exercise a buy back opportunity if one is available to you. If you are interested in purchasing service credit that may be available, complete a buy back form, indicate the buy back(s) for which you believe you are eligible, and mail or fax the form to the Retirement Office at the address or fax number shown on the form. If you have specific questions, please write them on the form.

Definitions

Some of the buy backs require the member to pay the “actuarial cost” of the retirement benefit that's being purchased. This means that the member is paying for the full financial value of increased retirement benefits resulting from the buy back of additional service credits. Regular retirement benefits are based on the member's age, years of service (service credits) and salary. The actuarial cost represents how much money is needed in today's dollars to pay for the expected increased benefits that will be received in the future, over a member's lifetime. Actuarial costs are determined by using standard actuarial methods and assumptions adopted by the Retirement Board, and applying them to a member's retirement benefit. The Retirement System's actuarial firm is providing the Retirement Office with these cost factors.

Some of the buy backs require the member to make a repayment of previously withdrawn member contributions with interest. The interest used to determine the price of the buy back is at the “actuarial assumed rate of investment return, which is currently 7.75% per year.” This rate of interest represents the lost investment income the Retirement System is assumed for actuarial purposes to have been able to earn during the time period the member's contributions were not left with the System. This form of buy back is different than the “actuarial cost” charged for some of the other buy backs and will be less than the full actuarial cost attributable to the additional service credits.

“Service credit” is a term used to describe the amount of credit toward retirement a member accumulates. Service credit is given for the time a member works and pays contributions from his or her salary into the Retirement System, or for time a member acquires by paying for a buy back or redeposit. For example, a full time employee who works for the City and contributes into the Retirement System for 4 years will accumulate 4 years of service credit. An employee who works half time and contributes into the Retirement System for 4 years will accumulate 2 years of service credit.

The following information summarizes provisions of certain City Ordinances and many sections of the Seattle Municipal Code (SMC). For further details, please refer to the Ordinances (particularly Ordinance 120684) or Municipal Code, which are available online through the Legislative Research Pad on the City of Seattle Inweb <http://inweb/>. We’ve included the new or amended SMC references below.

Purchase of Initial Six Months

Employees hired between January 1, 1988 and December 31, 1998 did not contribute to the Retirement System during their first six (6) months of employment, and did not receive credit toward retirement for that time. These employees have never had an opportunity to purchase their first six (6) months.

These members will be given a chance to purchase these six (6) months of service credit at a point in the future. That point will be after the Retirement Board certifies the “funding ratio” of the retirement fund is 95% or greater. The funding ratio is the percentage that results from dividing the Retirement System’s actuarial assets by its actuarial liabilities. The actuarial assets represent the value of the investments and cash the Retirement System holds for funding retirement benefits. The funding ratio is used to determine whether current assets meet current benefit obligations, or actuarial liabilities.

Special One Year Window

For the one year period following December 1 of the year in which the Board certifies the funding ratio is 95% or greater, a member will be allowed to purchase the initial six (6) months by paying less than the actuarial cost. The payment will equal current hourly pay rate X, current member contribution rate X, and number of hours to be purchased. Payment can be made in a lump sum or in installment payments at 7.75% interest spread over 10 years. Partial purchases will be allowed so a member can purchase just part of the initial six (6) months. This particular buy back requires the member’s employing department to make a matching payment to the Retirement System (SMC 4.36.191 B and C.)

The one-year window period for purchasing credit for the first six (6) months of employment will become available for any buy back by a member who was a City employee on December 1, 2001 but has terminated employment, but not yet retired, as allowed by SMC 4.36.192.

A member also will be allowed to purchase the initial six (6) months by paying the actuarial cost in a lump sum at the time of resignation from employment, or retirement (SMC 4.36.191A.)

Purchase of Time Employed as a Temporary Employee

Employees already have opportunities to purchase service credit for past temporary employment; after working 1,044 hours; after working 10,440 hours; or after becoming a regular employee before reaching 10,440 hours. However, for employees who missed those opportunities, the new buy backs give them another chance to purchase temporary time. They can do this by paying the actuarial cost in a lump sum at the time of resignation from employment, or retirement (SMC 4.36.195H.)

Purchase of Time Employed as an Exempt Employee

Some employees are exempt from the Civil Service System and thus, may have decided not to enroll in the Retirement System. Enrollment is optional, and instead of enrolling immediately upon becoming a City employee, some wait until later. When those employees do enroll, they often want to purchase service credit for time worked prior to their decision to enroll. There has not been an opportunity to do this until now.

The new buy back options give these employees an opportunity to purchase exempt time by paying the actuarial cost in a lump sum at the time of resignation or retirement (SMC 4.36.100F.)

Purchase of Military Time

Some military veterans have requested an opportunity to purchase service credit for time spent on active duty in the armed forces. Currently, employees who have a break in their regular City employment to serve in the military can make up their missed time by paying for missed retirement contributions, provided they return to work within 90 days of discharge.

Under the new buy backs, a member will now have a chance to purchase up to 5 years of credit for past active duty in the armed forces, which occurred either prior to City employment or during a break from paid City employment. The employee will pay the actuarial cost in a lump sum at the time of resignation or retirement.

Redeposits

Employees who terminate their City employment often withdraw their retirement contributions. If they later return to City employment, they frequently want to redeposit their withdrawn contributions and recapture credit for their previous service. They've been allowed to do so if, within 60 days of their rehire date, they redeposit the withdrawn funds plus interest charged at the Retirement System's actuarial assumed rate of investment return, which is currently 7.75%, from the date of withdrawal to the date of redeposit. This buy back opportunity now has been expanded as follows:

- The requirement of deciding whether to make a redeposit of withdrawals within 60 days after the rehire date has been extended to 2 years after the rehire date (SMC 4.36.190 B.1.)
- If an employee misses the 2 year decision period, a redeposit can be made later by returning the withdrawn amount, plus interest charged at the actual annual rates earned by the

Retirement System investments from the date of withdrawal to the date of redeposit. The annual rate, however, cannot be less than the actuarial assumed rate of investment return, which is currently 7.75% (SMC 4.36 B.3.)

In addition, any of the above re-deposits can now be made either in a lump sum or in installment payments at 7.75% interest spread over 10 years, instead of the 5 years allowed in the past. Partial re-deposits will be allowed so a member can purchase just a portion of the retirement credit lost due to the past withdrawal.

Portability Re-Deposits

This type of re-deposit applies to former City employees who withdrew their retirement contributions when they terminated employment, and have gone to work for another governmental employer such as the State of Washington, City of Tacoma, City of Spokane, or King County/Metro. Retirement service credit is portable between the City of Seattle and these other entities. Employees sometimes want to re-deposit their withdrawn contributions and recapture credit for their past City of Seattle service. They've been allowed to do so if, within 2 years of hire by the portable governmental employer, they re-deposit the withdrawn funds plus interest charged at the actuarial assumed rate of investment return, which is currently 7.75%, from the date of withdrawal to the date of re-deposit.

If a former employee misses the regular 2 year re-deposit period, a re-deposit can be made by returning the withdrawn amount, plus interest charged at the actual annual rates earned by the Retirement System investments from the date of withdrawal to the date of re-deposit. The annual rate, however, cannot be less than the actuarial assumed rate of investment return, which is currently 7.75% (SMC 4.36.400D.)

Additional Information

If they wish, active employees may transfer funds from eligible deferred compensation plans and traditional individual retirement accounts (IRA's) to pay for buy backs (SMC 4.36.101.) These sources of payment were not available in the past for service credit purchases due to federal law, which was recently amended and now allows these transfers. This is only available to current, active employees and the transfer must come from an account owned solely by the employee. It cannot be an account owned jointly, or by anyone other than the employee. Subsequent distribution of the transferred funds will, of course, be subject to IRS regulations. When considering this type of transfer, we urge you to consult your tax advisor to determine any tax consequences.

For buy backs which require the payment of the actuarial cost, the member's Retirement System account will be credited with that portion of the payment equal to; the member's current hourly rate X, the current contribution rate X, and the number of hours to be purchased, plus interest charged at the actuarial assumed rate of investment return, which is currently 7.75%. That amount will be available if the member chooses Retirement Option G, which is the retirement option that allows a member to take a lump sum payment at retirement of half or all of his or her contributions (SMC 4.36.190 B.4(b).)

For calculation of payments of actuarial costs, which are to be made at the time of resignation prior to retirement, the actuarial cost is an estimate using current assumptions. The actual amount will be adjusted at the time of retirement.

For re-deposits and portability re-deposits, the member's Retirement System account will be credited with that portion of the payment equal to; the amount previously withdrawn plus interest at the actuarial assumed rate of investment return, which is currently 7.75%. That amount will be available if the member chooses Retirement Option G, which is the retirement option that allows a member to take a lump sum payment at retirement or half or all of his or her contributions. The re-deposit payment can be received by the member if the member withdraws contributions prior to retirement, or by a survivor or beneficiary if the member dies while an active employee (SMC 4.36.190 B.3 (b) and (c).)



Seattle City Employees' Retirement System Buy Backs @ Actuarial Cost

During 2001, new opportunities to purchase or “buyback” service credit toward retirement became available. Some of these new opportunities now allow the buyback of service credit for time employed by the City as a temporary or exempt employee, and for military time, if an employee pays the required actuarial cost in a lump sum at the time of retirement, or an estimated amount at the time of resignation.

The actuarial cost can only be determined at the time an employee retires, because the cost must be based on the factors which exist at that specific time. However, in order to try and provide some general information to you, we have put together numerous examples to give you a ballpark estimate of how much it would cost to purchase additional service credit using the actuarial cost method. To help you determine the impact of a buyback on your potential retirement benefit, a page from our Information Handbook has also been included. It shows the percentage factors that are used when calculating a person's maximum retirement allowance. This percentage factor, based on your years of retirement service credit and age, would be multiplied by your final average salary, which is the average of the highest 24 consecutive months salary, to arrive at your maximum monthly retirement allowance.

Paying the actuarial cost of the retirement benefit that's being purchased means that the member is paying for the full financial value of increased retirement benefits resulting from the buyback of additional service credits. The actuarial cost represents how much money is needed in today's dollars to pay for the increased benefits that will be received in the future, over a member's expected lifetime. Actuarial costs are determined by using standard actuarial methods and assumptions adopted by the Retirement Board, and applying them to a member's retirement benefit.

Temporary Time

Employees have these opportunities to purchase service credit for past temporary employment: after working 1,044 hours; after working 10,440 hours; or after becoming a regular employee before reaching 10,440 hours. However, for employees who missed those opportunities, the new opportunity gives them another chance to purchase temporary time. They can do this by paying the actuarial cost in a lump sum at the time of retirement, or an estimated amount at the time of resignation from employment. SMC 4.36.195 H.

Military Time

Employees who have a break in their regular City employment to serve in the military can make up their missed time by paying for missed retirement contributions, provided they return to work within 90 days of discharge. The new opportunity now gives an employee a chance to purchase up to 5 years of credit for past active duty in the armed forces, which occurred either prior to City employment or during a break from paid City employment. The employee must pay the actuarial cost in a lump sum at the time of retirement, or an estimated amount at the time of resignation. SMC 4.36.124.

Exempt Time

Some employees are exempt from the Civil Service System and thus may have decided not to enroll in the Retirement System. Enrollment is optional, and instead of enrolling immediately upon becoming a City employee, some wait until later. When those employees do enroll, they often want to purchase service credit for time worked prior to their decision to enroll. The new buyback options give these employees an opportunity to purchase exempt time by paying the actuarial cost in a lump sum at the time of retirement, or an estimated amount at the time of resignation. SMC 4.36.100 F.

For calculation of payments of actuarial costs, which are to be made at the time of resignation prior to retirement, the actuarial cost is an estimate using current assumptions. The actual amount will be adjusted at the time of retirement. This applies to members who leave City employment but retain their retirement funds in the Retirement System in order to receive a vested benefit later, after they reach an age at which they are eligible to retire.

If you are eligible for a buyback, you will have to decide whether it would be worthwhile for you to actually pay for it. As you can see from the examples, the cost to purchase time using the actuarial cost method is expensive. This indicates how valuable your City retirement benefit is. However, if this purchase is something you wish to pursue, one way to pay is by using funds from a traditional IRA account or your City Deferred Compensation account. You may start setting aside funds in these accounts and prior to leaving City employment you may transfer these funds to pay for buybacks. SMC 4.36.101. This is only available to current, active employees and the transfer must come from an account owned solely by the employee. It cannot be an account owned jointly, or by anyone other than the employee. Subsequent distribution of the transferred funds will, of course, be subject to IRS regulations. When considering this type of transfer, we urge you to consult your tax advisor to determine any tax consequences.

For buybacks which require the payment of the actuarial cost, the member's Retirement System account will be credited with that portion of the payment equal to: the member's current hourly rate X the current contribution rate X the number of hours to be purchased, plus interest charged at the actuarial assumed rate of investment return, which is currently 7.75%. That amount will be available if the member chooses Retirement Option G, which is the retirement option that allows a member to take a lump sum payment at retirement of half or all of his or her contributions. SMC 4.36.190 B.4(b).

While the actuarial cost cannot be determined until the time you retire, we hope that this information and the attached examples will give you a better idea of how much the buyback cost might be. Thank you.

Actuarial Cost Examples

Final Average Salary	Final Average Salary (hrly rate)	Age	Service Credit (years)		No Purchase	Purchase 1 year	Purchase 2 years	Purchase 3 years	Purchase 4 years	Purchase 5 years
4,524	26.00	52	20	Monthly Benefit	1,085	1,235	1,393	1,560	1,737	1,922
				Cost to Purchase	-	24,749	50,998	78,747	107,997	138,745
3,480	20.00	52	20	Monthly Benefit	835	950	1,071	1,200	1,336	1,479
				Cost to Purchase	-	19,037	39,229	60,574	83,073	106,726
2,610	15.00	52	20	Monthly Benefit	626	712	803	900	1,002	1,109
				Cost to Purchase	-	14,278	29,422	45,431	62,305	80,044
4,524	26.00	55	20	Monthly Benefit	1,357	1,520	1,691	1,872	2,062	2,262
				Cost to Purchase	-	25,896	53,233	82,007	112,218	143,870
3,480	20.00	55	20	Monthly Benefit	1,044	1,169	1,301	1,440	1,586	1,740
				Cost to Purchase	-	19,921	40,948	63,082	86,322	110,669
2,610	15.00	55	20	Monthly Benefit	783	876	976	1,080	1,190	1,305
				Cost to Purchase	-	14,940	30,710	47,311	64,741	83,001
4,524	26.00	57	20	Monthly Benefit	1,538	1,710	1,891	2,081	2,171	2,262
				Cost to Purchase	-	26,481	54,355	83,624	97,561	111,498
3,480	20.00	57	20	Monthly Benefit	1,183	1,315	1,454	1,600	1,670	1,740
				Cost to Purchase	-	20,370	41,812	64,326	75,047	85,768
2,610	15.00	57	20	Monthly Benefit	887	986	1,090	1,200	1,252	1,305
				Cost to Purchase	-	15,278	31,359	48,245	56,285	64,326
4,524	26.00	57	15	Monthly Benefit	1,031	1,100	1,169	1,237	1,306	1,538
				Cost to Purchase	-	10,594	21,185	31,778	42,370	78,049
3,480	20.00	57	15	Monthly Benefit	793	846	899	952	1,005	1,183
				Cost to Purchase	-	8,149	16,296	24,444	32,591	60,037
2,610	15.00	57	15	Monthly Benefit	595	634	674	714	753	887
				Cost to Purchase	-	6,111	12,222	18,334	24,444	45,028
4,524	26.00	57	10	Monthly Benefit	687	756	825	893	962	1,031
				Cost to Purchase	-	10,592	21,185	31,777	42,370	52,961
3,480	20.00	57	10	Monthly Benefit	528	581	634	687	740	793
				Cost to Purchase	-	8,149	16,296	24,444	32,591	40,740
2,610	15.00	57	10	Monthly Benefit	396	436	476	515	555	595
				Cost to Purchase	-	6,110	12,221	18,333	24,444	30,554

Actuarial Cost Examples

Final Average Salary	Final Average Salary (hrly rate)	Age	Service Credit (years)		No Purchase	Purchase 1 year	Purchase 2 years	Purchase 3 years	Purchase 4 years	Purchase 5 years
4,524	26.00	62	19	Monthly Benefit Cost to Purchase	1,564 -	1,809 34,389	1,900 47,078	1,990 59,767	2,081 72,457	2,171 85,146
4,524	26.00	62	20	Monthly Benefit Cost to Purchase	1,809 -	1,900 12,689	1,990 25,378	2,081 38,068	2,171 50,757	2,262 63,447
3,480	20.00	62	19	Monthly Benefit Cost to Purchase	1,203 -	1,392 26,453	1,461 36,214	1,531 45,975	1,600 55,736	1,670 65,497
3,480	20.00	62	20	Monthly Benefit Cost to Purchase	1,392 -	1,461 9,761	1,531 19,522	1,600 29,283	1,670 39,044	1,740 48,806
2,610	15.00	62	19	Monthly Benefit Cost to Purchase	902 -	1,044 19,840	1,096 27,160	1,148 34,481	1,200 41,802	1,252 49,123
2,610	15.00	62	20	Monthly Benefit Cost to Purchase	1,044 -	1,096 7,320	1,148 14,641	1,200 21,962	1,252 29,283	1,305 36,604
4,524	26.00	62	15	Monthly Benefit Cost to Purchase	1,235 -	1,317 11,548	1,399 23,096	1,482 34,643	1,564 46,190	1,809 80,579
3,480	20.00	62	15	Monthly Benefit Cost to Purchase	950 -	1,013 8,883	1,076 17,765	1,140 26,648	1,203 35,530	1,392 61,983
2,610	15.00	62	15	Monthly Benefit Cost to Purchase	712 -	760 6,662	807 13,324	855 19,987	902 26,648	1,044 46,488
4,524	26.00	62	10	Monthly Benefit Cost to Purchase	823 -	905 11,547	988 23,094	1,070 34,642	1,152 46,190	1,235 57,736
3,480	20.00	62	10	Monthly Benefit Cost to Purchase	633 -	696 8,883	760 17,765	823 26,648	886 35,530	950 44,413
2,610	15.00	62	10	Monthly Benefit Cost to Purchase	475 -	522 6,661	570 13,323	617 19,986	665 26,648	712 33,309
4,524	26.00	62	5	Monthly Benefit Cost to Purchase	411 -	494 11,148	576 23,096	658 34,642	741 46,190	823 57,738
3,480	20.00	62	5	Monthly Benefit Cost to Purchase	316 -	380 8,883	443 17,765	506 26,648	570 35,530	633 44,413
2,610	15.00	62	5	Monthly Benefit Cost to Purchase	237 -	285 6,661	332 13,323	380 19,986	427 26,648	475 33,310